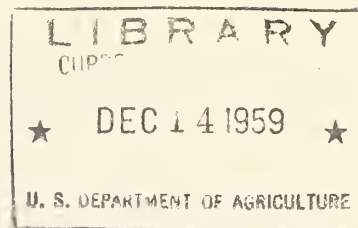


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Changing Marketing Channels For Farm Foods

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CHANGING MARKETING CHANNELS FOR FARM FOODS 1/

Marketing channels for agricultural food products in the United States have gone through three principal phases of change during the history of the country. In the early colonial period marketing channels were generally short. Then as the economy grew and cities got larger and as transportation facilities improved, marketing channels lengthened, which is to say that marketing intermediaries involved in moving a product from the farm to the consumer increased in number. Before the Civil War, specialized marketing firms gained a dominant position in the marketing of farm food products.

During the latter half of the 19th century agricultural products typically were handled by four, five, or even a larger number of intermediaries between the time they left the farmer and reached urban consumers. But in this period new forces were developing that would shorten marketing channels for farm food products. Between 1880 and 1930, large food processing companies were establishing branch houses in the larger cities to sell directly to retailers. After World War I, large retail food chains were integrating wholesaling functions with retailing, buying food products directly from processors, country assemblers, and farmers.

Marketing channels for poultry, eggs, fruits and vegetables have become more direct than ever before, except in the very early period of our country. Direct marketing of livestock by producers to packers has been expanding since the 1920's. The article that follows outlines the development of our marketing channels for food from colonial times to the present giving consideration to the dynamic factors that prevailed in each period.

A rudimentary marketing system was adequate to supply domestically produced food products to the small urban population of Colonial America. Farmers, local processors, and consumers performed most of the marketing tasks. Even the largest urban centers -- Philadelphia, Boston, New York, and Charleston -- were so small that they could be supplied mainly from the surrounding countryside. When the first Census was taken in 1790 only about 5 percent of the population of the country lived in urban areas of 2,500 or more inhabitants. The few people who were dependent on purchased foods generally bought either directly from farmers or from retailers, who bought from farmers. Many farmers peddled products

1/ Prepared by Forrest E. Scott, Agricultural Economist, and Willard F. Williams, Head, Marketing Information and Statistics Section, Mktg. Econ. Res. Div., Agr. Mktg. Serv.

from door to door or sold them in the public markets that were maintained by every settlement of any size. Local food processors, consisting mainly of grist mill and slaughterhouse operators, marketed a large part of their products directly to consumers.

Even in the early colonial period, however, some farmers produced more products than they were able to sell to consumers in their community. Country storekeepers assembled these surplus products and sold them to merchants in the seaboard cities or exchanged them for imported products. Sometimes these merchants conducted an exporting, importing, wholesaling, and retailing business. They bought products from millers, meatpackers, bakers, tanners, and other processors and sold them to retailers in the seaboard cities or exported them. Because of the small urban population, markets in the West Indies and Europe had to be found for a large part of the volume of products marketed by farmers.

As the country developed, longer marketing channels became typical; but the shorter channels remained in isolated areas and in new frontier communities. Even today these simple channels have not entirely disappeared. Some farmers and small processing plants still sell food products directly to consumers and retailers.

Lengthening of Marketing Channels

During the 19th century, the typical marketing channel for farm food products in the United States became longer and more complex than it had been in earlier days. Specialized marketing firms arose; large central markets for farm products were established. Growth in manufacturing and trade brought about the rise of urban centers. The inhabitants of these centers were too numerous to be supplied mainly with food products produced on nearby farms; locally produced supplies had to be supplemented by shipments from distant producing areas. At the same time, many farmers, particularly those in the newly settled West, were producing more than they could market locally. Simultaneously, a growing number of processing plants were dependent for raw supplies on distant markets. In this same period of growth, improvements in transportation facilitated commerce. After steamboats came into use on the Ohio, Mississippi, and other rivers, large volumes of farm products were shipped on river boats. First turn-pikes, followed by the canals and railroads, connected producing, processing, and consuming centers.

Direct sales by farmers to consumers during the 19th century accounted for a decreasing proportion of the trade in food products. Public markets continued to function, mainly as a source of fresh meat, vegetables, and fruits, but an increasing number of the stalls were kept by persons who bought rather than produced the products they sold. More door-to-door peddlers now than formerly were small-scale merchants rather than farmers or processors. As the cities expanded, public markets became inconvenient for many urban families. An increasing number of housewives began to patronize neighborhood retail stores. Grocery stores, meat markets,

bakeries, fruit and vegetable stores, and other specialty retail food stores were opened in the growing cities and these tended to supplant the general store. City retailers in this period bought more from wholesalers, less from farmers.

In the 19th century, wholesalers handled an increasing proportion of the farm food products marketed. ^{2/} Many of the early merchants engaged in both wholesaling and retailing and in seaport cities often were both importers and exporters. Some wholesalers bought products from country assemblers, farmers, and processors, others handled products on a commission basis, and some did both types of business. Wholesale grocers assembled products from many small and widely dispersed processing plants. In the latter part of the 19th century, some wholesale houses sold products under their own brand. To obtain products of the desired quality and uniformity they had to maintain frequent contacts with processors, whom the wholesalers frequently financed. A few wholesale firms owned processing plants. They sent out salesmen to call on retailers. Many wholesalers extended credit to retailers. Because of the large scope of their operations, wholesalers overshadowed retailers and processors during most of the 19th century.

Grain buyers, livestock dealers, fruit and vegetable shippers, and other specialized country assemblers increased in number in the 19th century although many country storekeepers continued still to assemble farm products.

Large central markets for grain and livestock during the first half of the 19th century grew up on the waterways and railroads that connected producing areas with population centers in the East. In these markets, grain and livestock were sold both to processors and to dealers who shipped to markets in the East and abroad. Many market centers became meatpacking and milling centers. The Chicago Board of Trade, where grain was bought and sold, was organized in 1848, and the Union Stock Yard of Chicago was established in 1865. Commission merchants received grain and livestock on consignment from farmers and country assemblers; other wholesaler merchants bought and sold these products on their own account. A relatively large number of buyers and sellers traded in each market; their close contact enabled them to obtain knowledge of the market demand and available supplies. Prices established at these markets guided buyers at country points in fixing their offering prices.

Wholesale markets for fresh fruits and vegetables, eggs, and butter developed near rail yards and port facilities in the larger cities. Products were concentrated at these markets for inspection by buyers. Shipments to these markets from distant specialized producing areas increased rapidly in the 1890's, after the development of the refrigerator car. Products were shipped from wholesale markets in the larger cities to surrounding smaller cities.

^{2/} The term wholesaler is used in this article to designate several types of intermediaries in the marketing channel between country assemblers and retailers. It is applied to merchants who buy from processors and country assemblers of farm products and sell to processors, other wholesalers, and retailers. It includes merchants who take title to the product and also those who act only as agents.

As marketing channels lengthened, public attitudes toward marketing developed. Some farmers and consumers believed that many marketing intermediaries performed no essential functions and their participation made the price spread between farmers and consumers wider than it should be. ^{3/} Marketing channels involving several "middlemen" were a principal cause of the charge that marketing costs too much.

The Shortening of Marketing Channels

Direct Marketing by Food Processors

Selling by food processors directly to retailers increased as large food processing organizations were formed in the latter part of the 19th century. Large companies first appeared in the meatpacking industry. By 1900 the five largest companies bought nearly half of all slaughter animals sold in the United States. ^{4/} During the first three decades of this century large companies were organized in the baking, milling, canning, and dairy industries; others were formed to manufacture breakfast foods, vegetable oil products, chocolate products, and a variety of other specialty foods. Several of these large companies were formed by mergers of smaller companies. The large food processing companies packed their products in containers bearing their own trademarks and advertised nationally. Dissatisfaction with wholesalers' promotional activities apparently was one of the reasons some of the larger companies formed their own sales organizations. These companies believed wholesalers did not give their products sufficient attention and promotion -- wholesalers had to spread their sales efforts over too many products. Also the processors disliked "hand-to-mouth" buying -- a practice the wholesalers adopted after the drastic decline in prices early in the 1920's. This change forced processors to hold more of the inventory.

Food processing companies that adopted direct marketing established sales organizations and facilities for selling directly to the many small retail stores. Warehouses, commonly called branch houses, were maintained in the larger cities from which products were distributed to retail stores. The meatpacking companies had railroad car routes (and later truck routes) to supply retailers in smaller cities and towns. Refrigerator cars loaded with packinghouse products were sent out along regular routes to make deliveries to buyers along the way. Processing companies that had a relatively full line of products could sell to retailers more easily and at a lower selling cost than those having a more limited line. Economies of scale could be achieved in selling and distribution, as well as in production. The advantage of having a full line encouraged companies to diversify their product mix, sometimes by merging with companies that manufactured different products.

^{3/} Fred M. Jones, "The Development of Marketing Channels in the United States to 1920," Marketing Channels for Manufactured Products, (Richard M. Clewett, ed.), 1954, p. 54.

^{4/} A. C. Hoffman, Large-Scale Organization in the Food Industries, Temporary National Economic Committee Monograph 35, U.S. Government Printing Office, 1940, p. 15.

Direct Buying by Retailers

Formation of large retail food-store companies was a strong force in shortening marketing channels for food. Some companies in the 19th century operated chains of retail stores -- several of the present large retail food chains date from that period. The number of chainstores increased in the first 20 years of this century, and during the 1920's the number grew much more rapidly. ^{5/} By 1930 the large chains, and many of the small ones, were buying directly from processors, country assemblers, and farmers, or from their agents or brokers. Since 1930 additional chains have grown large enough for direct buying.

The direct-buying chains operate warehouses from which they distribute products to their stores. Central purchasing departments do most of the buying for the entire chain. Some chains operate bakeries, fluid milk plants, condenseries, and other processing plants; facilities for pre-packaging fresh fruits and vegetables; and warehouses in the producing areas for assembling butter, cheese, eggs, and other products. Even the larger chains, however, buy most of the processed products they handle. Many of the larger companies arrange with processors to manufacture products having certain specifications and packaged in containers bearing the chain's brand. Some chains take all the output of some processors.

Many independent retail stores and small chainstore companies belong to central buying organizations which give them many of the advantages of direct buying. Some wholesale companies have organized groups of retailers into "voluntary chains." Other retailers have formed cooperative groups owning wholesale organizations. A few of these groups have centralized buying and warehousing for nearly all the articles sold by their members, including fresh meats, some fresh fruits and vegetables, and some nonfood items. Some have arranged with processors for the manufacture of products having the groups' private brands. These groups generally have routine order forms and delivery schedules which reduce selling and delivery costs. A few of the voluntary-group wholesalers own chains of retail stores which they supply in addition to the voluntary-group stores.

One of the principal reasons why chains have adopted direct buying is that it gives them greater control over their supply. Since they buy in large lots, chains are able to arrange with manufacturers to make the type of product they specify. Buying from manufacturers and producing-area shippers frees the chains from dependence upon wholesalers for the type of product in the volume needed, at the time that it is needed.

Direct buying probably reduces procurement costs for the chains. ^{6/} The number of bargaining transactions and ownership transfers involved in

^{5/} Richard C. Clewett, "Mass Marketing of Consumers' Goods," Growth of the American Economy, (H. F. Williamson, ed.), 1951, p. 767.

^{6/} See p. 66 of reference cited in footnote 4.

moving products from producer to retailer is reduced by direct buying. Wholesalers' commissions and brokers' fees are eliminated although these savings probably are partly offset by expenses of direct buying. Some chains may make a saving by performing assembling, warehouseing and delivery functions more efficiently than the wholesalers. The possibility of saving in this way, however, may not be as great as by reducing selling and buying transactions, since direct-buying chains do the physical handling of the product formerly performed by wholesalers. Processors who sell most or all of their output to one or a few large volume buyers should have lower selling costs than firms that sell to a large number of small volume buyers, and lower selling costs may be reflected in lower prices.

Direct-buying has increased as the retail food chains have gained a larger share of the total grocery-store sales. Grocery stores belonging to chains of 11 or more units had about 33 percent of the total grocery-store sales in 1939 and 42 percent in 1958. ^{7/} According to estimates published by the Progressive Grocer, independent grocery stores affiliated with voluntary and cooperating groups had 45 percent of the total grocery-store sales in 1958, compared with 29 percent in 1947. ^{8/} Other estimates published by the Progressive Grocer indicates that about 90 percent of the stores belonging to chains of 11 or more units are supplied mainly by direct buying rather than by wholesalers.

Several developments that have facilitated direct buying are the following: (1) Improvements in motortrucks, especially the refrigerator trucks, and in highways; (2) improvements in means of rapid long-distance communication; (3) development of grade standards by which the physical characteristics of products can be described, and (4) greater availability of market news. Small chains and independent supermarkets that have sales too small to permit buying in carlots can handle a trucklot. Truck shipments go directly to the chain or supermarket warehouse; backhauls and handling are reduced. The development of quality standards and grades for processed and unprocessed agricultural products has made it possible to describe the quality characteristics of a product by telephone or other means of long-distance communication. By reference to grades a buyer can make purchases with a reasonable degree of safety without personal inspection of the product. The U.S. Department of Agriculture and State Departments of Agriculture have been developing quality standards and grades since before World War I. Product description by grade standards makes market news more meaningful and dependable as prices can be related to

^{7/} Compiled from the Census of Business, 1939 and the Survey of Current Business.

^{8/} Facts in Grocery Distribution, 1959 edition, published by Progressive Grocer. According to the Progressive Grocer estimates, independent stores unaffiliated with cooperative and voluntary chains had 16 percent of the total grocery-store sales and chainstores (those belonging to corporate chains having 11 or more units) had 39 percent in 1959. The Progressive Grocer includes country general stores selling food and delicatessen stores in the grocery-store category. This classification probably accounts for much of the discrepancy between the Progressive Grocer estimates and those of the Bureau of the Census, published in the Survey of Current Business.

products having specified quality characteristics. Reports by Federal and State agencies concerning prices, visible market supplies, shipments, and other market news from shipping points and terminal markets help both sellers and buyers.

More Direct Marketing for Farm Products 9/

Livestock and Meat

Terminal markets at Chicago, Kansas City, Omaha, South St. Paul, and other railroad centers dominated the marketing of livestock in the first quarter of this century. 10/ Most of the meat animals handled at these markets were consigned by producers to commission men who sold them to packers. Country dealers who bought from farmers also consigned to terminal markets. Large numbers of stocker and feeder animals also were consigned to terminal markets. The larger packing companies and many of the smaller ones had plants adjacent to these terminal markets. In 1923 (the earliest year for which data are available), the following proportions of federally inspected slaughter were bought by packers in terminal markets: Cattle, 90 percent; calves, 86 percent; sheep and lambs, 86 percent; hogs, 77 percent. 11/

Since 1923 the proportion of livestock marketed through terminal markets has declined. In 1956, the following estimated proportions of animals slaughtered in plants that had Federal inspection were obtained by packers at terminal markets: Cattle, 70 percent; calves, 37 percent; sheep and lambs, 45 percent; and hogs, 37 percent. 12/ During the 1920's, producers sold an increasing proportion of their livestock directly to packers and country dealers. In the 1930's the proportion they sold at nearby auction markets increased substantially. Producers in 1953 sold approximately 34 percent of their livestock at terminal markets, 26 percent at country auctions, 15 percent directly to packers, 15 percent to local dealers, and 10 percent to farmers and other buyers. 13/ Packers bought approximately 49 percent of the livestock handled at country auctions in 1955 -- 32 percent by means of packer buyers and 17 percent through order buyers. Dealers bought 10 percent of the total volume of livestock handled by auctions, part of which they sold to packers. 14/

9/ Only marketing channels which account for the bulk of the marketings are described in this article.

10/ Terminal markets (also known as public stockyards, terminal public markets, central markets, and public markets) are operated by private companies. Their facilities for holding, feeding, and selling livestock are available to any buyer or seller willing to pay the posted charges.

11/ Victor B. Phillips and Gerald Engelman, Market Outlets for Livestock Producers, U.S. Dept. Agr., Mktg. Res. Rpt. 216, Mar. 1958, p. 3.

12/ See p. 5 of publication cited in footnote 11.

13/ See p. 11 of publication cited in footnote 11.

14/ Gerald Engelman and Betty Sue Pence, Livestock Auction Markets in the United States, U.S. Dept. Agr., Mktg. Res. Rpt. 223, Mar. 1958, p. 20.

Since the early 1920's interior packing plants (those not located near the large terminal markets) have received an increasing proportion of the slaughter livestock marketed by producers. Sales of hogs to interior packers increased more than sales of other species. The interior packers made the bulk of their purchases of livestock directly from producers and dealers and at auction markets. They also bought some livestock at terminal markets. To compete with interior packers for supplies of livestock, terminal market packers increased their direct buying. They sent buyers into the producing areas to buy at the producers' farms, concentration yards, country auctions, and other points. They also made arrangements with other buyers to buy for them. In recent years the larger packers have built and bought plants at interior points.

Among the principal reasons for the increase in direct marketing of slaughter livestock were:

1. The use of trucks and improvements in highways made deliveries directly to interior packing plants easier for farmers. Before trucks came into use producers generally found it advisable to ship their livestock to markets with which they had the most direct rail connections. Furthermore, truck transportation was better adapted than rail transportation to the shipment of small lots.
2. Radio market news reports which became common in the 1920's aided farmers to select among alternative markets.
3. By selling to country buyers producers avoid long-distance shipping costs, terminal market yardage charges, selling commission, and other charges. Some producers believe higher prices received in terminal markets often do not compensate for these charges.
4. In sales to interior packing plants, order buyers, and other country buyers, agreements on prices are reached before livestock leave the farm. Livestock shipped to a terminal market are committed for sale at a price not definitely known when they leave the farm.
5. Shrinkage in weight is less when livestock is sent to nearby markets rather than to distant terminal markets.

Although sales at terminal markets now represent a smaller proportion of total sales than formerly, these markets still are important outlets for livestock. They are particularly significant as price registering points, because market news reports from terminal markets are widely disseminated.

Direct buying of meat.- In 1929 commercial meatpackers made almost half of their sales of red meat through their branch houses. 15/ Since

15/ Willard F. Williams, "Structural Changes in the Meat Wholesaling Industry," Journal of Farm Economics, May 1958, p. 322.

that year this proportion has decreased and the proportion made directly from the packing plant to retailers and other large buyers (hotels, restaurants, institutions, etc.) has increased. In more recent years, the proportion of total sales made by packers to independent wholesalers and jobbers has increased. By 1954 packers distributed only about a fifth of their output through branch houses. Retailers obtained more than three-fifths of their supply directly from packing plants, about a fifth from branch houses, and a little more than an eighth from independent wholesalers and jobbers. Between 1929 and 1954 the number of packer branch houses declined by more than two-fifths.

The increase in the number of large retail food chains was a principal factor causing reduction in the proportion of packers' output distributed through branch houses. Among the other factors were improvements in truck transportation and refrigeration; development and wider use of official carcass grades for beef, veal, and lamb; improvements in wholesale market news; and growth in the number of specialized, independent wholesale meat distributors. These changes facilitated sales by small packers to buyers throughout the United States, so they were no longer limited to local markets.

Poultry

Many retail chains and some of the larger independent food retailers now buy ready-to-cook poultry directly from country processing firms; other retail stores, institutions, and restaurants buy from city wholesale distributors who, in turn, buy directly from processing plants in producing areas. Many of these processing plants obtain nearly all of their chickens and turkeys directly from producers. Thus, the marketing channels that account for most of the volume have only one or two intermediaries between producers and retailers.

These marketing channels are considerably shorter than the channels typical for chickens 20 years ago. In 1939 about half of the volume of dressed chickens handled by retailers came from city processing plants.^{16/} These plants bought live chickens mainly from city wholesalers who received them mostly from country assemblers. Country assemblers, also known as shippers, assembled chickens from local buyers and farmers. Other retailers bought from wholesalers of dressed chickens, and the wholesalers obtained dressed birds from city processors. Thus, three to five marketing agencies participated in the movement from farm to retailer. Also, some retail stores bought and dressed live chickens. These marketing channels have all but vanished; the number of live chickens shipped to cities has declined greatly as also has the number of city processing plants. In 1939, some city wholesalers of dressed chickens obtained their supply from country processing plants, but the volume of dressed chickens bought by retailers directly from country processors was negligible.

^{16/} E. P. Winter, Marketing Margins and Costs for Poultry and Eggs, U.S. Dept. Agr., Tech. Bul. 969, Nov. 1948, p. 8.

Marketing channels in 1939 generally were shorter for turkeys than for chickens. Most of the turkeys sold in city retail stores were raised and processed in concentrated producing areas. Plants in these areas bought turkeys directly from specialized producers and sold dressed birds to city wholesalers. However, the volume sold directly to retail firms was small.

In many instances direct buying shortens the time between slaughter of the birds and delivery at the retail store, so birds are fresher when received. Direct buying gives the larger firms more assurance of obtaining the type of product wanted at the time needed. The establishment of large processing firms in the producing areas has made direct buying easier.

The growth of the broiler (frying chicken) industry and technological innovations in processing and transportation have caused the shift of processing from cities to producing areas, and have brought the decline in shipments of live chickens. Nearly all of the chickens sold in retail stores today are broilers that have been raised in concentrated producing areas. These areas are relatively small geographically but the production is sufficient to supply large-scale plants. Producers in these areas are located close together and each sells large numbers of chickens at one time to processing plants. Many of the plants in the producing areas are larger than any city plant and can use efficiently machinery and processing methods which are not applicable in small-volume plants. Improvements in motortrucks, highways, and refrigeration equipment have strengthened the competitive position of country plants. Country plants also have advantages relative to city plants in (1) lower cost of assembling live birds in volume directly from producers, which offset higher costs of distributing ready-to-cook birds, (2) lower wage rates, (3) lower land costs and taxes, and (4) less shrinkage in weight in moving live birds from farms to nearby plants.

Eggs

Larger chains now generally buy eggs directly from country shippers. A decreasing number buy bulk eggs and do their own grading and cartoning at city plants. A few chains have their own country plants and buy eggs directly from producers. Chains buy eggs directly from sellers in the producing areas for the same reasons they have adopted direct buying of poultry and fruits and vegetables. Direct buying provides them with a fresher product, gives them more assurance of obtaining the desired quality and volume when needed, and reduces their procurement costs.

Smaller chains and independent retail stores generally buy eggs from city receiver-distributors who receive eggs from country shippers and deliver to retail stores. Some distributors receive bulk eggs which they grade and pack in cartons, but an increasing number receive eggs graded and cartoned by country shippers. Some city distributors have their own grading and packing plants in producing areas. In Los Angeles, San Francisco, and Seattle retail stores obtain nearly all their eggs from plants of assembler-distributors located in nearby concentrated producing areas.

Many retail stores in the larger cities 20 years ago bought eggs from jobbers who, in turn, bought bulk eggs from city wholesalers. Jobbers candled the eggs, packed them in retail-size containers, and made deliveries to retail stores. City wholesalers who sold to jobbers received car- or trucklot shipments from country shippers. Many of the eggs were produced in areas where individual farmers had only small volumes to sell, so shippers generally had to assemble eggs from a wide area. They bought eggs from country stores, feed stores, and other local buyers and maintained their own buying stations at various points to buy directly from farmers and other buyers.

A growing proportion of the eggs marketed today are being graded and cartoned at country plants because these functions can be performed there more cheaply than in city plants. Lower wage rates, taxes, and other costs give country plants an advantage. But the main advantage in carton-ing eggs at country plants is that it reduces the total labor and equipment cost for the entire marketing process by decreasing the number of times eggs are physically handled in moving from farms to consumers. In the last 20 years the production of eggs has become somewhat more concentrated in relatively small areas having specialized, large-volume producers. Plants in these regions can assemble large volumes of eggs directly from nearby producers. Many of these large plants have equipment for handling, sizing, and cartoning eggs which would be uneconomical for plants with a small volume. Their assembly costs generally are lower than those of plants in areas where eggs must be assembled from a much larger number of producers. To obtain top quality eggs in the volume needed, a growing number of country assembler-distributors have contracts with producers. These contracts specify the minimum size of flocks, standards for feeding and care of hens and for handling of eggs, and marketing terms.

Fruits and Vegetables

Some of the larger retail food chains have been buying fresh fruits and vegetables directly from country shippers and farmers since the 1920's. Other chains bypassed city wholesalers when their volume grew large enough to justify direct buying. Increases in the number of direct-buying chains and growth in their volume of purchases have greatly expanded the total volume of direct buying. According to rough estimates, direct purchases of fresh fruits and vegetables by corporate chains in recent years have accounted for approximately 30 percent of the total receipts of these products in 17 major cities, compared with 15 percent in 1936. A growing number of the cooperative and voluntary chains buy some items directly.

Chains usually ship the fruits and vegetables they purchase at shipping points directly to their warehouses. The largest chains do much of their direct buying through their own salaried buyers stationed in producing areas, and a few operate packing houses. Medium-sized chains frequently buy from country shippers or through buying brokers at the shipping points.

Marketing channels of direct-buying chains are considerably shorter than those through which many independent retail stores and stores of the

small chains receive their produce. These stores buy from: (1) A city wholesaler who receives car- or trucklot shipments from country points, or (2) a jobber who obtains his supplies, in turn, from carlot receivers or, in a few cities, from an auction market. Thus, two city dealers may take title to produce before it is sold to the retailer, and each may unload, display, and load it at his place of business. However, the channel involving both jobber and wholesaler now accounts for a much smaller proportion of the total volume than formerly.

Terminal market dealers now handle a smaller proportion of the supply of fresh fruits and vegetables than formerly, and the total supply has not increased much in the last 20 years. Increases in the volumes of fruits and vegetables processed have held down marketings in fresh form. The proportion handled by terminal market dealers has declined because of direct-buying by retail chains and, in addition, many smaller markets formerly supplied mainly by shipments from terminal markets now receive truck shipments directly from producing areas.

Auction markets now are in operation in nine of the large eastern and midwestern cities, compared with 12 in 1935. Fruits make up the bulk of the sales at these markets. The volume handled by these auctions declined from about 76,000 carlots in 1950 to 55,000 in 1957. About 74 percent of the auction sales in 1956 were made to wholesale handlers; 18 percent to retailers, including restaurants and institutions, and the remainder to buying brokers (principals unknown). 17/

Terminal markets, however, still play an important role in the marketing of fresh fruits and vegetables. Both large and small chains do some buying from city market dealers. The larger chains buy from these dealers if larger quantities are needed than have been purchased directly. Also they may buy some specialty items for which sales are small. Smaller chains may buy from city dealers all but a few fresh fruits and vegetables, such as potatoes, onions, and citrus fruits, that are sold in large volume. The smallest chains and independent retailers generally buy all their fresh fruits and vegetables from city dealers.

One of the reasons why chains buy fresh fruits and vegetables at shipping points is to enable them to obtain the quality of product needed in adequate volume at the time needed. This is often a reason for direct buying when a large chain plans to have a "special" on a product. It would not want to depend on terminal markets where the supply is made up of relatively small lots of widely varying quality. Also direct buying avoids terminal market brokerage fees and other selling costs. Handling costs in terminal markets often have been notoriously high because of inadequate facilities, traffic congestion, and high cartage charges. Many of the larger cities have several "markets." Their decentralization makes assembling and distributing products more costly and price determination less efficient. Since World War II, several cities have built new public markets, but in the markets of some of the largest cities few improvements have been made.

17/ Alden C. Manchester, The Changing Role of the Fruit Auctions, U.S. Dept. Agr., Mktg. Res. Rpt. 331, June 1959, pp. 4-11.

Outlook for Greater Use of Shorter Marketing Channels

Food Chains Expected to Increase Direct Buying

Continuation of the following trends in food retailing are expected to increase the proportion of retail food stores supplied mainly by direct purchases from manufacturers, country assemblers, and farmers:

1. The number of corporate chains large enough to engage in direct buying is growing. Small chains are growing larger by acquiring independent stores and stores of other chains and by building new stores. The advantages of being large enough to warrant direct buying and private brands often have provided a motive for expansion.
2. Corporate chains and independent stores belonging to voluntary and cooperative groups continue to gain a larger proportion of the total grocery store sales. Many of the independent stores unaffiliated with voluntary and cooperative groups may be too small to compete successfully with larger stores, and their number probably will decrease further, causing a shift of sales to corporate chainstores and "affiliated" independent stores. Recently some food chain organizations have opened "bantam" food markets in several localities. These markets offer the advantages that small stores offer to some consumers and may provide especially strong competition for small independent food stores. The bantam markets aim to provide quick, convenient service to customers. Many stay open from early morning to late at night, 7 days a week.

Some chains that are large enough for efficient direct buying now do little or none of it. This is particularly true of cooperative and voluntary chains in the direct buying of fruits and vegetables. A considerable expansion in direct buying would result from a change in policy by these firms. Additional chains are likely to make buying arrangements with processors and other suppliers who are willing to pack under the retailer's private brand.

Retail chains are expected to step up direct buying of eggs and fresh fruits and vegetables. The proportion of eggs graded and cartoned at country plants will increase because of the advantages these plants have relative to city plants. More country assemblers of eggs and fresh fruits and vegetables probably will enter into agreements with producers in order to increase their control over the quality and volume of product produced.

Prospective Increase in Direct Marketing of Livestock

Packing plants located in livestock producing areas are expected to account for a larger part of the total output of red meats in the years ahead. These plants obtain a greater part of their supply of meat animals by direct buying from producers and buying at country auctions than do packers located at terminal markets. Interior plants often have

several advantages relative to terminal market plants. Among these advantages are: (1) Lower costs of plant sites, (2) lower overhead costs, and (3) less difficulty in obtaining a stable supply of animals throughout the year. 18/ Improvements in refrigerated trucks and in highways have made shipping of finished products easier for these plants. Since World War II, furthermore, rail freight rates for meat have not risen as much as those for livestock. The smaller increase in rates for meat favored the interior packers relative to packers obtaining meat animals from more distant points. Recently some railroads established higher minimum weights per carload of fresh meat and reduced rates per 100 pounds for cars loaded to these new minimum weights. 19/

Growth in the number of large-scale livestock producing units probably will increase direct marketing. Producers who market livestock at frequent intervals during the year generally acquire more skill in marketing than do farmers who sell once or twice a year. Producers who have acquired this skill are likely to prefer direct marketing rather than consignment to a terminal market commission agent. Since World War II output of feedlots in the West turning out from 1,000 to 30,000 or more head of cattle has grown until now they account for the major proportion of the cattle fed in that area. A large proportion of these cattle move directly to packers. Large commercial feedlots have been established in other parts of the country, but the number in these regions has grown much less rapidly than it has in the West. Specialized farms producing 500 to 2,000 or more hogs each year have increased in number. Further increases in the numbers of these large-scale producing units are anticipated.

Prospects for Wholesalers

Sales of food wholesalers generally have not decreased in recent years in spite of direct buying by retail food chains. Those of grocery, confectionery, and meat wholesalers rose about 5 percent from 1957 to 1958. 20/ The Census of Business showed that sales of specialty line grocery wholesalers increased more than those of general line wholesalers between 1948 and 1954. According to estimates published in the Progressive Grocer, 2,640 wholesale grocery firms were operating in 1958. Of these 2,640 firms, 545 sponsored voluntary retail groups, 195 were cooperative wholesalers, and 1,900 firms were not affiliated with retail groups. 21/

The Census of Business showed that sales in most lines of food wholesaling increased between 1948 and 1954 (the latest year for which data are available). Price increases accounted for part of the rise in dollar sales from 1948 to 1954, but the quantity of products also must have

18/ Harold Abel, Shifts in the Trade in Western Livestock, U.S. Dept. Agr., Agr. Inform. Bul. 14, 1950, p. 21.

19/ Mildred R. DeWolfe, "Recent Changes in Rail Freight Rates on Farm Products," The Marketing and Transportation Situation, July 1959, p. 40.

20/ Bur. of the Census, Monthly Wholesale Trade Report, December 1958, Feb. 1959.

21/ Facts in Grocery Distribution, 1959 edition, published by Progressive Grocer.

increased. Wholesalers affiliated with voluntary and cooperative groups had a larger share of the total sales of grocery wholesalers in 1954 than in 1948.

Sales to hotels, restaurants, institutions, and other buyers other than retail food stores account for a larger proportion of the wholesale food trade now than in earlier years. Prospective increases in per capita income and in the proportion of the people working away from home may cause sales of restaurants and other eating places to increase faster than the population in the years ahead.

Problems Arising from Direct Marketing

The trend toward direct marketing has created many problems for farmers, marketing firms, and the U.S. Department of Agriculture and State Departments of Agriculture. Among these problems are:

1. Because of increases in direct marketing, trading in butter and eggs on the New York and Chicago Mercantile Exchanges and central markets in some other cities has declined to low levels. Some market observers contend that the number of traders and volume of sales are so small that prices in these markets may often differ from the price that supply and demand conditions warrant. Yet many standing agreements between country shippers of these products and city receivers specify that the price paid for shipments shall be the price at one of these Exchanges or some other central market plus a designated premium.
2. In many country sales of farm products the seller obtains a bid from only one buyer. Unless the farmer has adequate knowledge of prices being paid in other transactions for products of the same quality he may accept a price that is lower than he could have obtained from other buyers.
3. Although market news reports of available supplies, shipments, and prices at some local shipping points are furnished farmers and dealers by Federal and State agencies, now that a growing volume of products bypass terminal markets, more shipping point market news should be provided. How can price and sales data be collected, summarized, and reported at a feasible cost?
4. The large retail chains probably will buy an increasing proportion of the output of some products. These chains prefer to buy from sellers who can supply a large volume of products having uniform, specified characteristics. They are likely to increase their efforts to obtain such a supply by making buying arrangements with shippers and producers. Products meeting their specifications may receive price premiums, as long as the supply is relatively limited. Many farmers must decide how to adjust their production and marketing programs to large-scale buying practices. Some may need to increase their volume of output by greater specification in production. Producers and country assemblers will need to do more sorting and grading to obtain standardized products.

